

Anthem Health Plans of Kentucky~

Anthem filed for a rate increase to its non-grandfathered, ACA-compliant individual plans. The requested increases vary by plan and range from 5.7percent to 26.4percent, with an average increase of 12.2percent. This rate increase affects 34,077 Kentucky members. The primary factors that impact the rate increase are trend, cost sharing adjustments, and the increase in assumed morbidity from the 2015 to 2016 rate development, offset by a significantly higher projected risk adjustment receivable amount.

Anthem included the 2014 experience in the filing, which shows an uncured loss ratio of 105.8percent. This is the only experience year of these plans.

Trend Components of the Rate Increase

In its rate development, Anthem assumed annual trend rates of 10.7percent on experience allowed costs and 9.8percent on credibility manual costs. The difference between these trends is due to the length of time that each is trended: 23 months for experience and 36 months for credibility manual. The credibility weighted average of the two is 10.1percent.

Anthem did not split its pricing trend between unit costs and utilization changes. However, based on its URRT inputs, the approximate split is 5.6percent for unit cost increase and 4.3percent for utilization increase.

Anthem added a provision for adverse deviation (PAD) of 2.5percent to its trend. Upon request, they provided multi-year, normalized historical trends to justify its need for this PAD. Anthem based the PAD in part on Monte Carlo simulations, in order to produce an 85percent confidence level. In the opinion of Anthem's actuary, this PAD is consistent with actuarial standards of practice, which require actuarial assumptions to be adequate under moderately adverse conditions.

Other Components of the Rate Increase

The following are the other factors that affected the rate increase, and their estimated impacts. With the exception of the first two factors, the others are averages of factors that vary by plan.

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| 1. | Risk adjustment applied to 2014 experience: | -3.0percent |
| 2. | Risk adjustment & reinsurance projected to rate year [a]: | -21.1percent |
| 3. | Provider network cost adjustments [b]: | +0.6percent |
| 4. | Cost sharing adjustment & benefit changes [c]: | +5.6percent |
| 5. | Administration and taxes [d]: | -2.3percent |
| 6. | Higher morbidity, demographic change, & other factors [e]: | +28.3percent |

- a) 2015 rates assumed significant risk adjustment payment: 2016 rates assume a small receivable.
- b) Varies by plan. This adjustment decreased by -0.6percent for PPO plans but increased by 1.9percent to 10.9percent for HMO plans.
- c) Varies by plan. The cost sharing adjustments encompass induced utilization changes and leveraging of trend due to fixed dollar out of pocket amounts.
- d) Anthem raised its fixed PMPM expense and lowered its percentage of premium expense. The impact of the change therefore varies by plan.
- e) This is not a directly calculated factor but represents a balancing item. Anthem based its 2016 rates on its 2014 ACA plan experience and not off of its 2015 rates. Note that items 1, 2 and 6 net out to -1.8percent.

Summary of the Actuarial Review

During the actuarial review, Anthem provided upon request additional details to support its trend projection, non-benefit expenses, morbidity and demographic change assumptions, credibility assigned to experience, paid to allowed ratios, risk adjustment, variation of the rate increase by plan (including cost sharing adjustments), and calibration factors. This information was provided in the form of several emails, documents, Excel workbooks, and two conversations with Anthem's actuary. The original rate requested was 14.6percent but was lowered to the approved average rate of 12.2percent

Anthem projects a 2016 MLR, using the ACA definition of 84.3percent

The information that Anthem submitted provides satisfactory documentation and support for its assumptions. Therefore the base rate increase is deemed to be actuarially justified and is approved in accordance with Kentucky statutes and regulations.